



CITY OF HAMILTON
CITY MANAGER'S OFFICE
Audit Services Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	January 19, 2015
SUBJECT/REPORT NO:	Audit Report 2014-04 - Corporate Services - Long Term Debt (AUD15003) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Ann Pekaruk 905-546-2424 x4469 Brigitte Minard 905-546-2424 x2088
SUBMITTED BY:	Ann Pekaruk Director, Audit Services City Manager's Office
SIGNATURE:	

RECOMMENDATION

- (a) That the Management Action Plans as detailed in Appendix "A" of Report AUD15003 be approved; and
- (b) That the General Manager of Finance and Corporate Services be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix "A" to Report AUD15003) implemented.

EXECUTIVE SUMMARY

The 2014 Internal Audit work plan approved by Council included an audit of long term debt. The audit reviewed the adequacy of controls and management of the City's long term debt portfolio, including projections and financial sustainability measures. Internal procedures, redemptions, interest payments, record keeping and reporting to Council were reviewed. No new debt was issued during the audit scope period of April 2013 to March 2014.

It is anticipated that as of December 31, 2014, the City's long term debt will total approximately \$360 million.

The results of the audit are presented in formal Audit Report (2014-04) containing observations, recommendations and management responses. Audit Report 2014-04 is attached as Appendix "A" to Report AUD15003.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: Long term debt is projected to peak at \$897 million in 2017. This is a threefold increase from the 2013 outstanding debt of \$294 million.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

The audit was scheduled as part of the 2014 Internal Audit work plan approved by Council. The audit fieldwork was completed in April to July 2014. The results of this audit are attached as Appendix “A” of Report AUD15003.

The Audit, Finance and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

- City of Hamilton Debt Management Policy and Lease Financing Policy (FCS13074), 2013
- Several City of Hamilton By-laws authorizing the borrowing of monies by way of bank loans and debenture issuance
- Ontario Municipal Act, 2001, Ontario Regulation 276/02, Bank Loans
- Ontario Municipal Act, 2001, Part XIII Debt and Investment, Section 408 (Bylaws re: debentures)
- Ontario Municipal Act, 2001, Ontario Regulation 403/02, Debt and financial obligation limits for municipalities

RELEVANT CONSULTATION

Appendix “A” to Report AUD15003 includes action plans which reflect the responses of management responsible for the administration of long term debt in the City’s Financial Policy and Planning Division of the Corporate Services Department.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION
(Include Performance Measurement/Benchmarking Data if applicable)**

The City's long term debt consists of serial debentures and loans that mature in the years 2014 to 2027 with varying interest rates. As of December 31, 2013, the long term debt of the City of Hamilton (excluding CityHousing Hamilton debt and lease financing) was \$294 million. It is anticipated that the City's level of debt as of December 31, 2014 will be approximately \$360 million. Long term debt is expected to peak at \$897 million in 2017. This is a threefold increase from the 2013 level of outstanding debt of \$294 million.

The workflows relating to long term debt include the Investments, Capital Budgets and Corporate Reporting Sections of the Corporate Services Department. The audit reviewed internal procedures, redemptions, interest payments, record keeping and reporting to Council regarding long term financial sustainability. The audit scope period was April 2013 to March 2014. No new long term debt was issued in this time period. Compliance with relevant legislation and City policy was assessed and annual principal and interest payments required to service these liabilities are within the limit prescribed by the Ministry of Municipal Affairs and Housing. Areas for improvement in regard to administrative controls and reporting to Council were identified.

A formal audit report containing observations, recommendations and management action plans was issued and is attached as Appendix "A" of Report AUD15003.

The main areas for improvement noted in Audit Report 2014-04 include:

- Review existing procedure documents regularly and create procedures for long term debt workflows in the Capital Budgets and Corporate Reporting Sections;
- Report to Council annually on the financial measures listed in the City's Debt Management Policy; and
- Issue a comprehensive annual debt report to Council that includes information about current and projected debt levels and any impact of the debt on the City's long term financial sustainability.

Management and staff have agreed to take measures in the near future in order to implement all but one of the three formal recommendations. Management disagreed with one recommendation as they feel that adequate information is provided to Council and no separate reporting is required. No further action will be taken for this item. Specific action plans can be found in the attached Audit Report.

Audit Services conducted this audit in conformity with the *International Standards for the Professional Practice of Internal Auditing*. These standards require that Audit Services plan and perform the audit to obtain sufficient, appropriate evidence to support the findings and conclusions based on the audit objectives. Audit Services believes that the work performed provides a reasonable basis for the audit findings and conclusions.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

Not applicable.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #3

Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective

3.4 Enhance opportunities for administrative and operational efficiencies.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report AUD15003

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